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TO RUEHC/SECSTATE WASHDC PRIORITY 0648
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 9274
RUEHKO/AMEMBASSY TOKYO PRIORITY 3317
RUEHWL/AMEMBASSY WELLINGTON PRIORITY 5547
RUEHUL/AMEMBASSY SEOUL PRIORITY 9631
RUEHGP/AMEMBASSY SINGAPORE PRIORITY 1622
RUEHBS/USEU BRUSSELS PRIORITY
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E.O. 12958: DECL: 12/10/2018
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SUBJECT: AUSTRALIAN MINISTERS MAKE QUICK TRIP TO BEIJING TO
PUSH FTA, DOHA

Classified By: ECONCOUNS E KAGAN, REASONS 1.4 (B, D)

¶1. (C/NF) Summary: Treasurer Swan and Trade Minister Crean made a weekend visit to China to push on bilateral FTA talks and on Doha, at PM Rudd's instruction. GOA trade officials hope that China's interest in easier terms for its state owned enterprises to invest in Australia will give some leverage in the FTA talks. China agreed to a round in February with a parallel ministerial meeting. Swan and officials in the GOA refuted press speculation about Australian pleas for more Chinese investment or attempts to negotiate iron contracts. End summary.

¶2. (U) Treasurer Wayne Swan and Trade Minister Simon Crean made a surprise weekend visit December 6-8 to Beijing for talks with Chinese officials on the stalled Australian-Chinese FTA talks. Australian media on Monday morning was full of speculation about the "real" reason for the visit. Some journalists theorized that Swan and Crean were going to try to renegotiate contract prices for iron; other speculated they were going to ask Chinese sovereign wealth funds to invest more money in Australian businesses or in Australian-dollar-denominated securities to help shore up Australia's current account situation (septel).

¶3. (C/NF) The truth, David Garner, Chief of Staff to Trade Minister Crean told econoff December 9, was that the trip was to push on Doha and the China-Australia FTA. The timing was because of Prime Minister Rudd's desire for quick follow-up to two conversations he had in November with Chinese President Hu Jintao, in Lima on the fringes of the APEC Leaders' Meeting and in Washington at the G-20 summit; Rudd promised Hu to send a senior delegation to China before the end of the year. Garner said that Swan and Crean had a good 90-minute meeting with Chinese Commerce minister Chen Deming.

The Australians highlighted the importance of constructive Chinese engagement on Doha. They urged China to take a big role in negotiating on sectorals. Garner said the GOA believed the Chinese would at least "be at the table" for sectoral discussions, but admitted they were not clear precisely how far the Chinese would be willing to go.

¶4. (C/NF) Chen mentioned to Swan and Crean that he had recently met with a senior US delegation in Beijing for the Strategic Economic Dialogue. He told the Australians they were "concerned" about overly high US expectations of China in the sectoral talks; Chen said US Trade Representative Schwab was "pushing the envelope too much" (Garner's phrase). But he was positive about engaging and committed to meeting in Geneva. Garner said Crean plans to leave for Washington

on December 10 to meet with Amb. Schwab.

¶15. (C/NF) In response to econoff's question, Garner scotched speculation about other reasons for the Swan/Crean trip. He said the GOA never gets involved in contract negotiations, referring to the rumor that they were trying to prop up rapidly falling commodity prices. Garner also said there was no discussion of new Chinese investment in Australian-dollar securities in order to mitigate Australia's current account deficit (septel). (Treasurer Wayne Swan denied in a media interview that they had met with any Chinese sovereign wealth funds.)

¶16. (C/NF) China FTA Task Force chief Ric Wells, who accompanied Swan and Crean to Beijing, echoed the point that the trip was the follow up on Rudd's promise in his November conversations with Hu. In those meetings, Rudd made it clear that unless there was progress on the FTA, it would be difficult to advance the Australian-Chinese relationship. Wells noted that rules governing investment into Australia was a significant topic during the meetings. China wants to gain greater access for its state owned enterprises (SOE) in Australia, and this desire has given the GOA some leverage over the past 6-8 months that it had not held before. Per Wells, Swan bluntly told the Chinese that although Australia was considering reviewing and revising its inward investment regime, he would not give any details to China unless there was something forthcoming from China on the FTA. Wells said the Chinese appeared to want "commercial" Chinese SOEs (with the PRC to determine what is a "commercial" SOE) to be given the same rights as private investors AND wanted to be given the same higher thresholds for review as that afforded

American companies in the US-Australia FTA - although Wells said he thought the request for US-style treatment was just an opening gambit.

¶17. (C/NF) The GOA and PRC did agree during the visit on a February round of talks, with a parallel ministerial meeting. Wells said the Chinese were reluctant on the ministerial participation, but agreed reluctantly to the parallel ministerial format. The Chinese also agreed to make an offer in some ag areas - agriculture and services have been the two biggest sticking points. Wells said this might be the "start of something," but he said the Chinese still did not like the idea of a set timetable; the GOA has said it would like to wrap up negotiations by the end of 2009.

¶18. (C/NF) Scott Dewar, Foreign Policy Advisor to PM Kevin Rudd, told us December 8 that Swan and Crean had gone to highlight Australia's desire for an FTA but emphasize that current PRC proposals are nowhere near what Canberra can accept. Dewar said that the PRC appears to believe that Australia will eventually accept a free trade agreement "like New Zealand - symbolic and not substantive." Dewar, who covers Asia issues in the PM's Office, said that Rudd wants to make sure that China understands that it cannot get Australian concessions on market access and investment without making concrete steps on agriculture and services. Dewar said the PM hoped to build on recent conversations with senior Chinese officials in Washington and Lima by showing his willingness to send two senior ministers to signal his commitment to a deal. Dewar, who served in Beijing from 2004-2007, acknowledged that the PRC might also read the trip as signaling that Australia wants a deal more China.

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